

Prospective payment system for inpatient psychiatric facilities

ISSUE: The Balanced Budget Refinement Act (BBRA) required the Secretary of the Department of Health and Human Services to:

- develop a prospective payment system (PPS) that includes a classification system that adequately reflects differences in patient resource use and
- issue a report to the Congress on the PPS.

The BBRA Conference Report charged MedPAC with evaluating the impact of the PPS on providers.

KEY POINTS:

Our draft letter report to the Congress highlights major issues that the Secretary should consider in constructing the PPS for inpatient psychiatric care. Of course, the Centers for Medicare & Medicaid Services (CMS) will construct and implement the PPS. We have identified six issues that fall into three broad categories:

- Issues of determining appropriate payments for patients treated in different types of facilities
 - The Secretary should examine more fully the differences between hospital-based and freestanding psychiatric facilities.
 - The Secretary should conduct more research on government-owned hospitals' costs to determine what they should be paid under the PPS.
- Implementation and administration issues
 - Although the Secretary should make transition from the current payment method to the PPS gradual, he should have the authority to allow facilities the option to move to 100 percent PPS rates before the transition is complete. This transition should be budget neutral.
 - The Secretary should have the authority to update payments annually.
- System design and statistical methods
 - The Secretary should decrease per diem payments continuously.
 - The Secretary should explore alternative models of per diem costs.

The draft letter report also briefly describes the payment model described in CMS's report and results of the payment impact analysis using that model.

ACTION: Commissioners need to discuss the draft letter report.

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